Foundations of MARKETING

Seventh Edition

Chapter 8

Reaching Global Markets

Pride | Ferrell

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Learning Objectives

8-1 Define international marketing.

8-2 Differentiate between the six environmental forces that affect international marketing efforts.

8-3 List six important international trade agreements.

8-4 Identify methods of international market entry.

8-5 Describe the use of the marketing mix internationally.

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International Marketing

International marketing – developing and performing marketing activities across national boundaries

- Traditional approach - companies entered the global marketplace as they gained knowledge about various markets and opportunities.
- Born global - small technology-based firms export their products after establishing in market niches in which they compete with larger established firms.

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Discussion Point – International Marketing

Source: Turkish Airlines

Turkish Airlines uses advertising to encourage people to visit Istanbul using their airline.

Why do countries promote global trade?

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Environmental Forces that Affect International Marketing Efforts

- Sociocultural forces
- Economic forces
- Political, legal and regulatory forces
- Ethical and social responsibility forces
- Competitive forces
- Technological forces

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Sociocultural Forces

- Cultural and social differences influence by beliefs and values regarding
  - Family
  - Religion
  - Education
  - Health
  - Recreation
- Difficult to transfer marketing symbols, trademarks, logos, and products to international markets
- Buyers' perceptions of different countries influence product adoption and use
- Consumer preferences for products depend on
  - Country of origin
  - Product category of competing products

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Cultural Differences

- Extent to which a product's brand image and country of origin influence purchases is subject to variation based on national culture characteristics.
- Cultural differences have implications for
  - Product development
  - Advertising
  - Packaging
  - Pricing

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Discussion Point – Floating Currency

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Although China has increased the value of its currency in recent years, it is still criticized for failing to float its currency according to the foreign market exchange rate.

How does the value of the U.S. dollar impact the global economy?

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Economic Forces

- Global marketers must understand
  - International trade systems
  - Economic stability of nations
  - Trade barriers
- Instability - constant in the global business environment

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Economic Forces (continued)

- Currency valuation - an important economic factor in the global business environment
- Floating exchange rate - allows the currencies to fluctuate, or float, according to the foreign exchange market
- **Gross domestic product (GDP) - o**verall measure of a nation's economic standing

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Table 8.2 - Comparative Analysis of Selected Countries

Country	Population (in Millions)	GDP (U.S.$ in Billions)	Exports (U.S.$ in Billions)	Imports (U.S.$ in Billions)	Internet Users (in Millions)	Cell Phones (in Millions)
Brazil	202.7	2,416	224.8	241.4	107.8	248.3
Canada	34.8	1,518	458.7	471	33	26.3
China	1,355.7	13,390	2,210	1,950	750	1,100
Honduras	8.6	39.2	7.9	11.3	1.6	7.4
India	1,236.3	4,990	313.2	467.5	243.2	893.9
Japan	127.1	4,729	697	766.6	109.3	138.4
Jordan	7.9	40.0	7.9	18.6	3.4	9.0
Kenya	45.0	79.9	6.6	15.9	16.7	30.7
Mexico	120.3	1,845	370.9	370.7	50.9	100.8
Russia	142.5	2,553	515	341	84.4	261.9
South Africa	48.4	595.7	91.1	99.6	24.9	68.4
Switzerland	8.1	371.2	229.2	200.5	7.2	10.5
Turkey	81.6	1,167	167.6	242.9	35.4	67.7
Thailand	67.7	673	225.4	219	19.4	84.1
U.S.	318.9	16,720	1,575	2,273	279.8	310

Source: The CIA, *The World Fact Book*, https://www.cia.gov/library/publications/the-world-factbook/rankorder/rankorderguide.html (accessed January 7, 2015); Vijay Vaitheeswaran, "China: A Hunger for Better Services," *The Economist*, November 20, 2014; The World in 2015 edition, http://www.economist.com/news/21631946-middle-kingdom-meets-magic-kingdom-hunger-better-services (accessed January 5, 2015); "Internet Users by Country (2014)," Internet Live Stats, 2014, http://www.internetlivestats.com/internet-users-by-country/ (accessed January 7, 2015).

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Political, Legal, and Regulatory Forces

- Elected or appointed officials
  - Enact legislation
  - Interpret legal decisions
  - Operate regulatory agencies
- **Import tariff** - duty levied by a nation on goods bought outside its borders and brought into the country

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Nontariff Trade Restrictions

- **Quota** - limit on the amount of goods an importing country will accept for certain product categories in a specific period of time
- **Embargo** - government's suspension of trade in a particular product or with a given country

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International Trade

- **Exchange controls** - government restrictions on the amount of a particular currency that can be bought or sold
- **Balance of trade -** difference in value between a nation's exports and its imports
- Government's attitude toward importers has a direct impact on economic feasibility of exporting to that country

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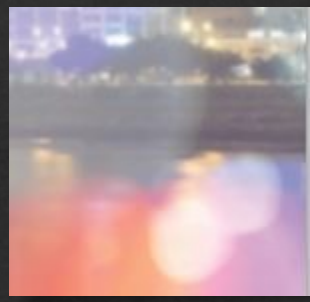
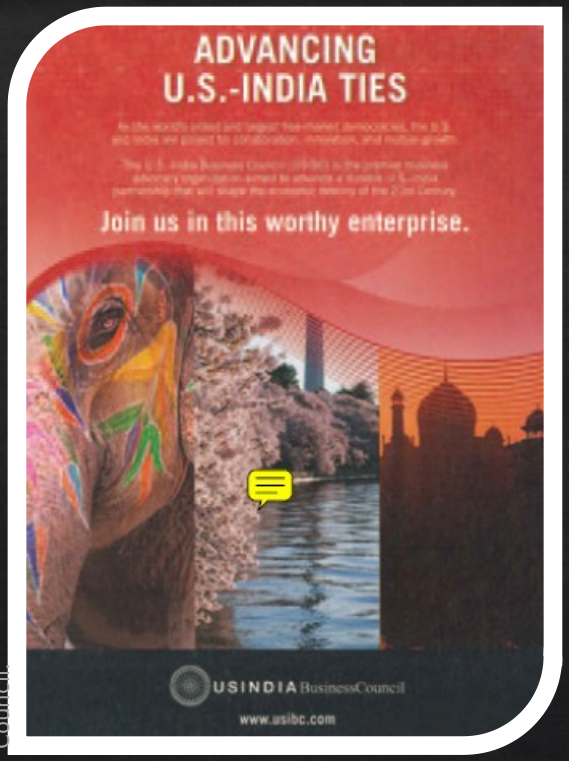
Discussion Point – Trade with India





Source: © Copyright 2013, U.S.-India Business Council

India is a lucrative market for many businesses. The U.S.-India Business Council encourages businesses to support collaboration between the two countries so that both can benefit from a strong partnership.

What impact has relationship marketing had for global brands?

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Discussion Point—U.S.–Cuban Relations

Chris Mellor/Lonely Planet Images/Getty Images

Havana Club Rum can be brought back into the United States by Americans returning from Cuba.

How would U.S.-Cuban normalization affect the U.S. economy?

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Foreign Corrupt Practices Act

Under the Foreign Corrupt Practices Act

- It is illegal for U.S. firms to make large payments or bribes to influence policy decisions of foreign governments.
- Publicly held U.S. corporations are subjected to rigorous internal controls and record-keeping requirements for overseas operations.

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Ethical and Social Responsibility Forces

- Self-reference criterion (SRC) - unconscious reference to one's own cultural values, experiences, and knowledge
- **Cultural relativism** - morality varies from one culture to another; business practices are differentially defined as right or wrong by particular cultures

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Table 8.3 – Ranking of Countries Based upon Corruption of Public Sector

Country Rank	CPI Score*	Least Corrupt	Country Rank	CPI Score*	Most Corrupt
1	91	Denmark	175	8	Somalia
1	91	New Zealand	175	8	North Korea
3	89	Finland	175	8	Afghanistan
3	89	Sweden	174	11	Sudan
5	86	Norway	173	14	South Sudan
5	86	Singapore	172	15	Libya
7	85	Switzerland	171	16	Iraq
8	83	Netherlands	168	17	Uzbekistan
9	81	Australia	168	17	Turkmenistan
9	81	Canada	168	17	Syria
11	80	Luxembourg	167	18	Yemen
12	78	Germany	163	19	Haiti
12	78	Iceland	163	19	Guinea Bissau

*CPI score relates to perceptions of the degree of public-sector corruption as seen by businesspeople and country analysts and ranges between 10 (highly clear) and 0 (highly corrupt). The United States is perceived as the 19th least-corrupt nation.

Source: Data from Transparency International, *Corruption Perceptions Index 2013* (Berlin, Germany, 2013).

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Competitive Forces

- Arise due to
  - Interconnected international marketplace
  - Advances in technology
- Firms that operate internationally should
  - Be aware of the competitive forces in the countries they target
  - Identify the interdependence of countries and the global competitors in those markets
  - Be mindful of global customers

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Technological Forces

- Advances in technology make international marketing activities affordable and convenient
  - Interactive Web systems
  - Instant messaging
  - Podcast downloads
- Many developing nations are beginning to capitalize on opportunities to surpass existing technology

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Table 8.4 – Ranking of the Most Competitive Countries in the World

Rank	Country	Rank	Country
1	Switzerland	11	Norway
2	Singapore	12	Taiwan, China
3	Finland	13	Qatar
4	Germany	14	Canada
5	United States	15	Denmark
6	Sweden	16	Austria
7	Hong Kong SAR	17	Belgium
8	Netherlands	18	New Zealand
9	Japan	19	United Arab Emirates
10	United Kingdom	20	Saudi Arabia

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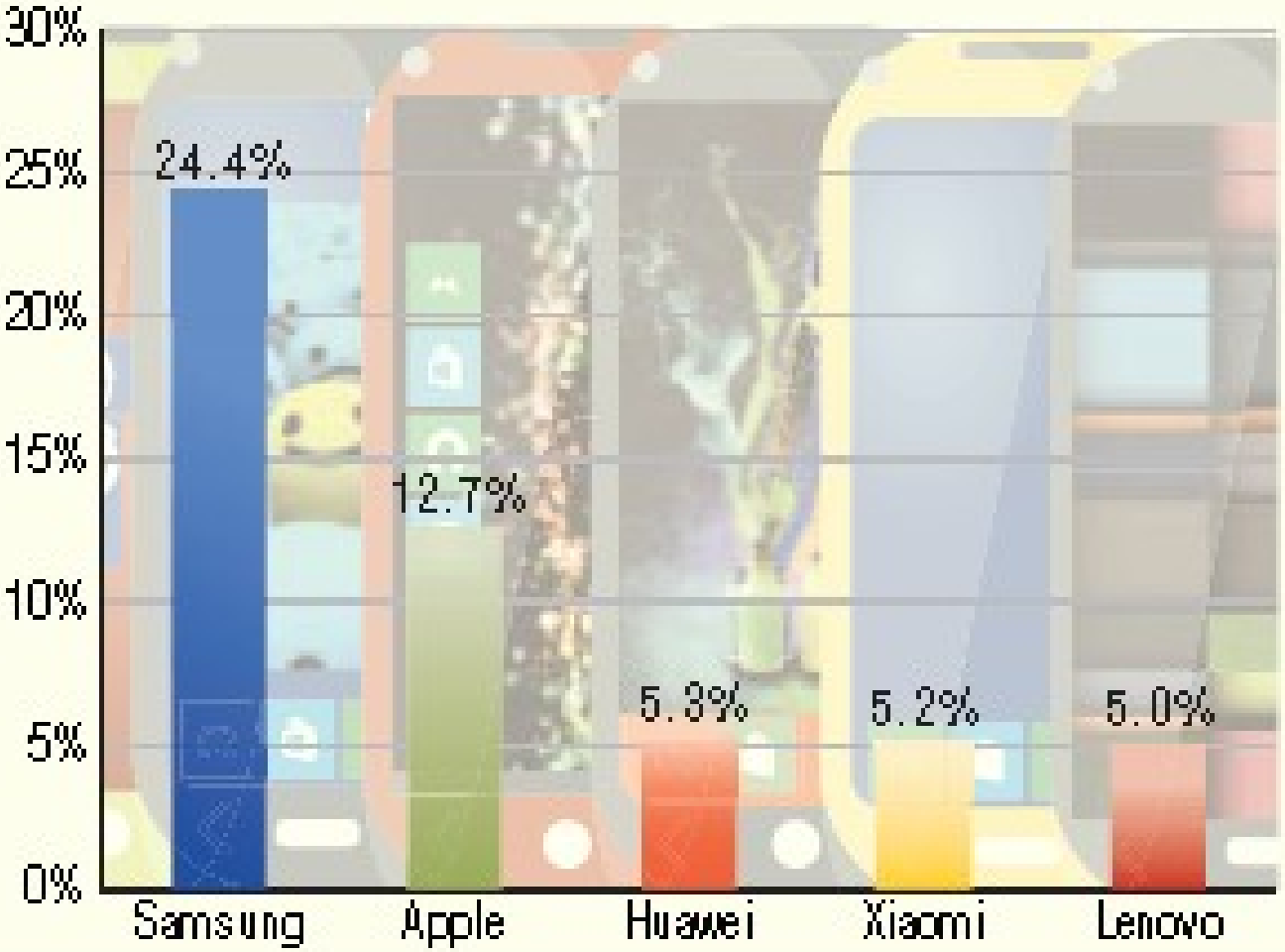
SNAPSHOT



Source: Gartner, December 2014.

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North American Free Trade Agreement (NAFTA)

North American Free Trade Agreement (NAFTA) – implemented in 1994

- Merged Canada, Mexico, and the United States into one market
- Eliminated all tariffs to create a free trade area
- Provides additional opportunities to integrate trade among all the nations in the Western Hemisphere
- A related trade agreement - Dominican Republic–Central American Free Trade Agreement (CAFTA-DR)

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European Union (EU)

European Union (EU) – established in 1958 to promote trade among its member countries in Europe

- Also referred to as the *European Community* or *Common Market*
- Consists of 18 separate countries
- Working on standardizing business regulations and requirements, import duties, and value-added taxes
- Working on eliminating customs checks
- Working on creating a standardized currency for use by all members

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U.S. and EU Relationship

The U.S. and EU generally have a strong positive relationship

- Shared values
- Ability to collaborate on mutually beneficial projects

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Discussion Point – European Union

Source: D.Gdel Tesoroy Politica Financiera

This advertisement from the Public Treasury of Spain encourages foreign businesspeople and companies to seize upon the opportunities available by investing in the country of Spain.

Why are cultural differences a major factor in developing marketing mixes that satisfy European customers?

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Southern Common Market (MERCOSUR)

Southern Common Market (MERCOSUR) - established the Treaty of Asunción to unite Argentina, Brazil, Paraguay, and Uruguay as a free trade alliance

- Promotes free circulation of goods, services, and production factors among the countries
- Establishes a common external tariff and commercial policy

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Asia-Pacific Economic Cooperation (APEC)

Asian Pacific Economic Cooperation (APEC) – established in 1989

- Promotes open trade and economic and technical cooperation among member nations
- Facilitates business and its practice of allowing the business/private sector to participate in a wide range of APEC activities

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Discussion Point – Encouraging Economic Development in Asia

Korea
Where you pick up beans with iron chopsticks
With dexterity, perseverance and resilience,
Korea has become an economic power.
Plant the beans for your success in Korea.
MOTIE
kotra
INVEST KOREA

Source: Invest KOREA

Korea's status as an economic power provides many opportunities for lucrative trade and investment.

What type of companies are experiencing fastest growth overseas?

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Association of Southeast Asian Nations (ASEAN)

Association of Southeast Asian Nations (ASEAN) – established in 1967

- Promotes trade and economic integration among member nations in Southeast Asia
- Members have expressed that there will be no common currency or fully free labor flows between members.

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World Trade Organization (WTO)

World Trade Organization (WTO) – based in Geneva, Switzerland, a global trade association that promotes free trade among member nations

- Successor to **General Agreement on Tariffs and Trade (GATT)** – signed by 23 nations in 1947 to reduce worldwide tariffs and increase international trade
- Provide forum for tariff negotiations
- Establish rules to guide international commerce, such as **dumping** – selling products at unfairly low prices
- Educate individuals, companies and governments about trade rules around the world
- Agreements provide legal ground rules for international commerce and trade policy

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Importing and Exporting

- **Importing** - purchase of products from a foreign source
- Exporting - sale of products to foreign markets
  - Enables firms of all sizes to participate in global business
  - Entails minimal effort and cost
  - Modifications may be the major expenses in adapting a product for the foreign market

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Figure 8.1 – Levels of Involvement in Global Marketing

Globalized marketing
Marketing strategies are developed for the entire world (or more than one major region), with the focus on the similarities across regions and country markets.
Regional marketing
Marketing strategies are developed for each major region, with the countries in the region being marketed to in the same way based on similarities across the region's country markets.
Multinational marketing
International markets are a consideration in the marketing strategy, with customization for the country markets based on critical differences across regions and country markets.
Limited exporting
The firm develops no international marketing strategies, but international distributors, foreign firms, or selected customers purchase some of its products.
Domestic marketing
All marketing strategies focus on the market in the country of origin.

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Trading Company

Trading company - links buyers and sellers in different countries

- Not involved in manufacturing
- Does not own assets related to manufacturing
- Buy products in one country at the lowest price and sell them to buyers in another country

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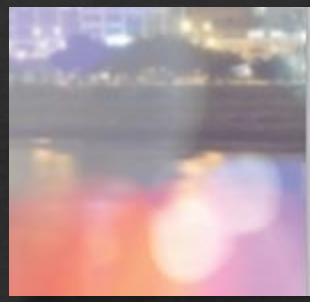
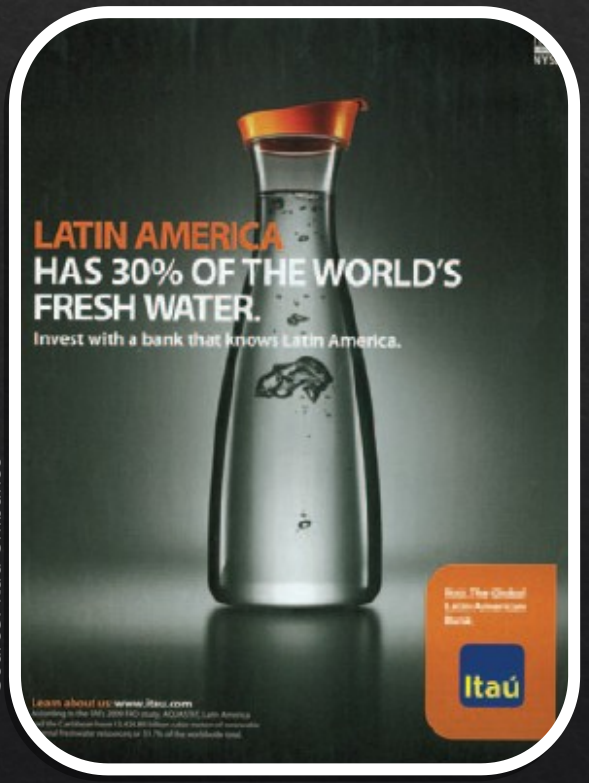
Discussion Point – Importing and Exporting





Source: Itau Unibanco

Itaú bank encourages businesses to invest with it because they know the Latin American market.

What are the major expenses in adapting a product for the foreign market?

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Licensing

Licensing - alternative to direct investment that requires a licensee

- Requires a licensee to pay commissions or royalties on sales or supplies used in manufacturing
- Licensee may also pay an initial down payment or fee when the licensing agreement is signed

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Franchising

- A form of licensing
- Company grants a franchisee the right to market its product in return for a
  - financial commitment
  - an agreement to conduct business in accordance with the franchiser's standard of operations
- Allows franchisers to minimize the risks of international marketing

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Discussion Point - Franchising

TonyV3112/Shutterstock.com

Subway has franchises in a number of countries, including this one in Shanghai, China.

How does a franchising license minimize the risks of international marketing?

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Forms of Contract Manufacturing

Contract manufacturing – practice of hiring a foreign firm to produce a designated volume of a product or component of it to specification

- **Outsourcing** – contracting of noncore operations from internal production within a business to an external entity that specializes in that operation
- **Offshoring** – moving a business process that was done domestically at the local factory to a foreign country, regardless of whether the production accomplished in the foreign country is performed by the local company or a third party
- **Offshore outsourcing** – contracting with an organization to perform some or all business functions in a country other than the country in which the product will be sold

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Joint Venture

- Partnership between a domestic firm and a foreign firm or government
  - Popular in industries requiring large investments
  - Political necessity
- Global importance due to
  - Cost advantages
  - Number of inexperienced firms that are entering foreign markets

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Strategic Alliance

Strategic alliance - partnerships formed to create a competitive advantage on a worldwide basis

- Represented by an agreement to work together
- Partners retain their distinct identities
- Each partner bringing a core competency to the union

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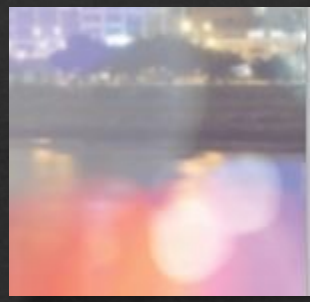
Discussion Point - Strategic Alliance



Source: Air France - KLM

Air France is a member of the 20-member strategic alliance among global airlines called Sky Team.

How do strategic alliances differ from joint ventures?

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Direct Ownership

Direct ownership – a firm owns subsidiaries or other facilities overseas

- Possible when a company makes a long-term commitment to marketing in a foreign country that has
  - Promising market
  - Suitable political and economic environment
- **Multinational enterprise** – a firm that has operations or subsidiaries in many countries

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Table 8.5 – Multinational Films from Around the World

Company	Country	Description
Royal Dutch Shell	Netherlands	Oil and gas
Toyota	Japan	Automobiles
Walmart	United States	Retail
Siemens	Germany	Engineering and electronics
Nestlé	Switzerland	Nutritional, snack-food, and health-related consumer goods
Samsung	South Korea	Subsidiaries specializing in electronics, electronic components, telecommunications equipment, medical equipment, and more
Unilever	United Kingdom	Consumer goods including cleaning and personal care, foods, beverages
Boeing	United States	Aerospace and defense
Lenovo	China	Computer technology
Subway	United States	Largest fast-food chain

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Table 8.6 – Marketing Mix Issues Internationally

Product Element	Sample International Issues
Core Product	Is there a commonality of the customer's needs across countries? What will the product be used for and in what context?
Product Adoption	How is awareness created for the product in the various country markets? How and where is the product typically bought?
Managing Products	How are truly new products managed in the country markets vis-à-vis existing products or products that have been modified slightly?
Branding	Is the brand accepted widely around the world? Does the home country help or hurt the brand perception of the consumer?
Distribution Element	
Marketing Channels	What is the role of the channel intermediaries internationally? Where is value created beyond the domestic borders of the firm?
Physical Distribution	Is the movement of products the most efficient from the home country to the foreign market or to a regional warehouse?
Retail Stores	What is the availability of different types of retail stores in the various country markets?
Retailing Strategy	Where do customers typically shop in the targeted countries: downtown, in suburbs, or in malls?
Promotion Element	
Advertising	Some countries' customers prefer firm-specific advertising instead of product-specific advertising. How does this affect advertising?
Public Relations	How is public relations used to manage the stakeholders' interests internationally? Are the stakeholders' interests different worldwide?
Personal Selling	What product types require personal selling internationally? Does it differ from how those products are sold domestically?
Sales Promotion	Is coupon usage a widespread activity in the targeted international markets? What other forms of sales promotion should be used?
Pricing Element	
Core Price	Is price a critical component of the value equation of the product in the targeted country markets?
Analysis of Demand	Is the demand curve similar internationally and domestically? Will a change in price drastically change demand?
Demand, Cost, and Profit Relationships	What are the fixed and variable costs when marketing the product internationally? Are they similar to the domestic setting?
Determination of Price	How do the pricing strategy, environmental forces, business practices, and cultural values affect price?

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Globalization

Globalization – development of marketing strategies globally as for a single entity

- Standardized products
- Promotion campaigns
- Prices
- Distribution channels for all markets

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Global Opportunities

- Opportunities generated by global presence
  - Adapt to local market differences
  - Exploit economies of global scale
  - Exploit economies of global scope
  - Mine optimal locations for activities and resources
  - Maximize the transfer of knowledge across locations

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